

Analysis and comparison of diageo and sab miller marketing essay



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This case study aims to analyse, compare and contrast strategic financial management of Diageo plc and SAB Miller plc. The analysis also identifies and explores the factors which are responsible for the current financial position and development of both the companies and critically evaluate the factors involves in future growth, development and change. To evaluate the performance of each company and compare them the financial analysis tools used are SWOT, the profit impact of market strategy (PIMS) and some comparison continued thereafter. In the end there is a conclusion for taking the summary of involved companies into consideration as to which company can be concluded to be more successful.

Diageo plc

Diageo is known for one the of world leading manufactures in liquors market. It is manufacturer of branded beer, premium spirits and wine products. Diageo market its premium alcohol beverages in more than 180 markets around the world. Its 17 brand range comes in the top 100 premium distilled spirits brands worldwide.

Diageo produces premium spirits under brands including Smirnoff, Johnnie Walker, Captain Morgan, Baileys, J&B, Jose Cuervo, Tanqueray, Guinness, and Crown Royal. Diageo's wine brands include Blossom Hill, Sterling, Beaulieu, Chalone, Navarro Correias, Rosenblum Cellars and Santa Rita. There are few other beer brands of the company include Harp, Smithwick's, Tusker and Red Stripe.

Diageo operates in four mail markets are: Asia Pacific, Europe, International and North America. Diageo sees a revenue of £12, 958 million (\$20, 491. 8

million) during the financial year ended June 2010 (FY2010), an increase of 5.5% over FY2009. Hence contribute to operating profit of the company to £2,574 million (\$4,070.5 million) in FY2010, an increase of 6.5% over FY2009. The net profit was £1,629 million (\$2,576.1 million) in FY2010, an increase of 1.5% over FY2009. (www.datamonitor.com)

SWOT Analysis for Diageo plc

Strength

Adequate range of brand in premium spirits segment

Due to involvement in various area of operations leads to less business

Weakness

Debt is a huge burden for this company

The way legal procedure goes in this firm that may affect corporate image in bad manner

Opportunities

A great increase in demand in global spirits market

Buying new companies, widen the market space and range of product as well

Wine market growth also a positive sign

Threats

High degree of competition

Very strict advertising rules

Unavailability of cheaper labour

SABMiller plc

SABMiller is also a world's biggest giant in liquor industries who has spanned across the six continents around the world. This company has more than 200 brands under its belt and market it across 75 countries.

SABMiller operation mainly involves across producing beer and soft drinks.

SABMiller offers premium beers brands such as Draft, Grolsch, Miller

Genuine, Peroni Nastro Azzurro and Pilsner Urquell. It also markets a range of local brands such as Aguila, Castle, Miller Lite, Snow and Tyskie.

Additionally, the company is engaged in the bottling business, and is one of the largest bottlers of Coca-Cola products.

SABMiller's operates in: Latin America; Europe; South Africa; Africa; Asia; and North America and headquartered in London, which employs about 70, 131 people.

SABMiller earned revenues of \$18, 020 million during the financial year ended March 2010 (FY2010), less than of 3. 7% as compared to 2009. The operating profit of the company was \$2, 619 million in FY2010, less than of 16. 8% as compared to 2009. The net profit was \$1, 910 million in FY2010, an increase of 1. 5% over 2009. (www. datamonitor. com)

SWOT Analysis for SABMiller plc

Strength

Top runner globally diversified brewer especially in African and Latin

American countries

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Huge range of international and local brands

Impressive cash productivity

Weakness

Less involvement to the Asian beer market though important player in China and India

Opportunities

Tie up with big retailers for distribution.

Latin American acquisition to expand operations

To improve the business and financials so restructuring initiatives

Threats

Huge competition

Margins can be affected by hike in raw materials

Bad perception pertaining to health in terms of beer as compared to wine

PIMS (Profit Impact of Marketing Strategy) Analysis of Diageo Plc vs. SAB Miller Plc

Competitive Position: Diageo is world's top 10 premium spirit brands having volume of 55% in market and leads among each segment of beverage alcohol. Diageo focus on essential market taking that parts bigger economies in consideration. Diageo manage these markets are under four geographical areas: North America (United States and Canada), Europe (Great Britain,

Ireland, Continental Europe, Iberia and Russia). The International business area comprises Latin America and the Caribbean (including Mexico), Africa and the Global Travel and Middle East business. The Asia Pacific business area comprises India, China, South Korea, Japan and other Asian markets, Australia and New Zealand. North America accounts for the largest proportion of Diageo's operating profit. ([www. diageo. com](http://www.diageo.com))

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Source: [www. diageo. com](http://www.diageo.com)

On the other hand when we compare the market share of SABMiller with that of Diageo, SABMiller operating brewing and distribution across six continents and is involves in over 55 countries. They have over 200 owned brands and six of their brands are among the top 50 in the world. In South Africa, where SAB Ltd began the year with the loss of a major premium brand to a competitor, overall volumes remained level while mainstream volumes grew satisfactorily by mid-single digits. ([www. sabmiller. com](http://www.sabmiller.com))

Production Structure: Diageo establishes its most of the product as world premium brands, regional brands and segmented brands. In the market the major player for Diageo is its world premium brands which are responsible for its growth. Commenting on Company's operational performance in a conference of the US analysts (2008), Chief Executive, Paul Walsh mentioned, " We've reported another year of strong organic growth, with net sales up 7% and operating profit up 9%, with free cash flow of £1. 25 billion. Our return on invested capital increased 50 basis points to 14. 9%. We have returned £1. 9 billion to shareholders, with dividends of £857 million and <https://assignbuster.com/analysis-and-comparison-of-diageo-and-sab-miller-marketing-essay/>

share buybacks of £1 billion. And we're recommending a full-year dividend per share of 34. 35p, which will be up 5% on last year." (www. diageo. com)

As we talk about SAB Miller, the firm grown to some US\$1, 978 million (2008: US\$1, 191 million) by simultaneously investing huge budget. This investment also improves manufacturing and selling to take full advantage of the market. Investment also increased due to the some key market currency strengthening as compared to US dollar. (www. sabmiller. com)

In Morgan Stanley Conference, held in New York (2008), the company announced that they will continue to invest for growth while re-examining costs and CapEx. This includes continued investment in brands, packaging and innovation, new capacity being commissioned over coming year, cost productivity remaining a focus and re-examining all capital expenditures. (www. sabmiller. com/files/presentations)

Attractiveness of the served market: Diageo long term goal aims at the continuous growth and increase shareholder value. When merger of Grand Metropolitan Public Limited Company (GrandMet) and Guinness PLC (the Guinness Group) took place Diageo was formed and simultaneously take over some companies and sold non-profit properties with the strategy of mainly focusing on premium brand. In the period from the merger in December 1997 to 30 June 2009, the group has received approximately £10. 5 billion from disposals (including £4. 3 billion from the sale of Pillsbury, £1. 9 billion from the sale of General Mills shares and £0. 7 billion from the sale of Burger King) and spent approximately £5. 6 billion on acquisitions (including

£3. 7 billion in relation to certain Seagram businesses). (www. diageoreports. com)

According to report of Chief Executive in the annual report (2009) of SAB Miller Group, “ This year has seen another strong performance with results continuing the trend of several very strong years. Adjusted earnings per share grew by 19%, bringing the compound annual growth rate over the last six years to some 20% per annum. At 143. 1 US cents, our adjusted earnings per share have very nearly trebled since 2002.” In the annual report of SAB Miller they have highlighted their key area of focus is to improve their routes to market both to remove costs and to ensure that the right products reach the right outlets in the right condition, accompanied by the right messages and merchandising material.

Comparison of Financial Strategies of Diageo Plc and SAB Miller Plc

Diageo Plc

Diageo operates worldwide with its premium drinks and one of few companies who involves in beer, spirit and wine market. Diageo stood 8th of the world’s top 20 premium spirits brands on profit and business basis. Diageo’s produce world famous beer like Guinness, and contribute to approximately 22% of net sales while wine comes approximately 6% of Diageo’s net sales.

Diageo’s size adds to low cost in production, selling and marketing. Due to this cost cutting they concentrate on cost effectiveness of the product and betterment of consumer services

The most important it retains and attracts talented individuals who contribute for betterment of the strategies and increase business through organic sales hence profit as well acquisition of premium brands that valuable to the shareholders.

([www. diageo . com](http://www.diageo.com))

According to Bender and Ward (2004), “ if a key competitive strength of the existing business is built on the current product attributes or strong branding which have created very local customers, a strategic thrust for continued growth could be based on umbrella branding of new products with comparable attributes.” From the above discussion it is clear that Diageo’s strategy is focused on its strength.

SAB Miller Plc

Within the span of 20 years SAB Miller expended its business from its base South Africa to the world, following is the list of their strategic priorities:

Creating a balanced and attractive global spread of businesses: As in recent years SAB Miller acquired new companies leads to world market approach and introduced to emerging market not sticking on a particular part of the world. Few of the achievement are 7% organic volume growth and 9% group revenue growth.

Developing strong, relevant brand portfolios in our local markets: Main motto to produce a good brand range that meets every consumer type and brings new improvement in terms of premiumisation, and growing demand for beer female consumers. To match with this demand a strategy is needed which

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tells each market dynamics and produce right range of brand for that particular market to grab the opportunity which leads to positioning of the distinct brand.

Constantly raising the performance of local businesses: The greatest strength of SABMiller is operational performance. It is clearly shown by EBITA that their standard increasing day by day. At local level they are joining hand with big retailer to increase the performance.

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Source: www.sabmiller.com

Comparison of Current Position and Performance of Diageo Plc and SAB Miller Plc

Diageo Plc consisted with 9% organic operating profit growth for the 30 June 2010. For 9 month span till 31 March 2010 Diageo's organic net sales growth was 7% (Appendix 2), where as the growth seen in the first half on 30 June 2010. Hence no change in terms of financial position for the company. The return of cash to shareholders through the payment of dividends and the continued share buyback programme led to a reduction in net assets from £4. 2 billion at 30 June 2009 to £3. 9 billion at 31 March 2009.

Paul Walsh, Chief Executive of Diageo commented: " Trading in the third quarter continued in line with the first half and we are therefore maintaining our guidance for 9% organic operating profit growth for the current fiscal year. We continue to believe that the diversity and strength of our brands,

the success of our marketing campaigns, our superior routes to market and our global reach will be key in delivering our performance.” (Reuters, 2009)

SAB Miller Plc In the year ending 30 June 2009, according to Graham Mackay, Chief Executive of SABMiller, “ The group recorded 1. 5% growth in larger volumes. As expected organic volume performance was subdued, with larger volumes down 1. 6% following the extraordinarily high growth of 13% in the prior year comparative period and reflecting lower volumes in China and the moderation of consumer spending in some markets. Group revenue growth has remained firm and financial performance in the quarter was in line with the group’s expectations, although the challenging trading environment in South Africa impacted financial performance there.” In the year ended 31 March 2009, the group reported US\$3, 639 million in adjusted pre-tax profit and revenue of US\$21, 410 million. (www. hemscott. com)

This attitude towards good corporate governance is echoed in a statement made by Howard Davies, the chairman of the Financial Service Authority of the UK, who said “ in my view, investment in good corporate governance arrangements, and good regulation all those arrangements, is among the most effective and rewarding investment a developing market can make, and there are figures to prove it.” (Davies, 2002)

Diageo Plc vs. SAB Miller Plc – Future growth and Development change

Diageo Plc – Looking at the current performance of Diageo Plc, they should invest to take leadership positions in every category, market and consumer occasion in which they choose to compete.

They should drive brand growth by exploiting complete category participation opportunities, rather than solely focusing on individual brands within categories. Key categories include Scotch whisky, vodka and rum. In order for Diageo to grow the brand, they should ensure that they have personnel to grow. They can chose to add another brand or expand into another market segment – but they need to be certain that they have a brand that they can expand upon. As mentioned by Saunders (2008) “Carefully consider your existing brand. Does it evoke stability? Flavour? Health? In order to successfully expand your brand, you have to give people the same feeling they had when you first established it in the first place. Don’t rush the process. Use a thesaurus to come up with like words and turn to compendiums of famous quotes and common phrases.”

Next step towards growth is to invest more resources into these and other brands with the best growth prospects. For this they are searching for opportunities in emerging markets. With European markets becalmed and continued economic uncertainty in the US, the emerging markets of Brazil, Russia, India and China have assumed even greater importance for Diageo. (Woodard, 2006) Though on year ending 30 June 2009, the only growth witnessed was in the top line 2% as they gained share in China and expanded in India and the markets of South East Asia. Finally, they should seek out selective acquisitions to support their brands growth.

One of the key development for Diageo Plc this year is its deal with the United Spirits as United Spirit negotiates a deal with Diageo Plc for picking up a 14. 9% stake. The total value of the deal works out to be around INR 18 billion. (www. businessweek. com)
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SAB Miller Plc – SABMiller's net profits climbed to 2. 023 billion dollars (1. 3 billion euros) in the 12 months to March 31, compared with the group's performance in 2008/09. " This strong outturn to the year is particularly pleasing given the scale of the challenge we faced at its outset, with exceptional prior year comparatives, rising input costs and an increasingly competitive environment in many of our markets," SABMiller chairman Meyer Kahn said in the earnings statement. (www. uk. biz. yahoo. com)

SABMiller is expected to produce a mixed bag of results with global volumes already reported to be 10% higher, led by South America, Europe and Africa/Asia, all ahead by more than 10%. The downside would be Miller in North America, which had suffered falling volumes and forecast lower earnings as higher costs like aluminium bite, analysts said. In addition, earnings growth from South Africa would be held back by the rand, which is 13 % down against the dollar from the previous year. " We see the outlook statement as reassuring. The key point is SABMiller's continuing confidence that it can fully offset these cost increases through price and mix improvements," said Cazenove analyst Matthew Webb. He raised his provisional earnings forecast for the year to March 2009 by 5 % to 162 %. (Reuters, 2009)

The key development for SAB Miller in the current year is its decline in sales volume for the third quarter ended December 2009. The company recorded a 22% decline in the sales volume of its beer in Russia in October-December 2009 compared to the same period of 2008 due to a drop in purchases by distributors. The company sales in Europe fell 1% in the period, while global

sales edged up 1%. Also, SABMiller plc may plan to make acquisitions. (www.businessweek.com)

CONCLUSION

According to the consolidated balance sheets (Appendix 2 & 3) of Diageo Plc & SAB Miller Plc respectively, one can easily interpret that with an increase of revenue from last year by 14.47% for SAB Miller, gross profit has also gone up by 14% however when compared with that of Diageo Plc, it has shown an increase of only 7.53% in revenue and 7% in gross profit. From the balance sheet of both the companies it is clear that increase in the Net asset value of SAB Miller (24%) is almost double than that of Diageo Plc (12%). Diageo, under whose belt are Johnnie Walker whisky and Smirnoff vodka, fails to gain the trust of the North American and European consumer. This can be understood by as the profit without tax dipped from £1.41bn to £1.39bn in the first half on 31 December. There is an increase in Net sales by 3% however downfall of 2% due constant currency basis. Except from Guinness all world premium brand sales fell.

SAB Miller showing great growth in world market (Appendix 1) especially in South Africa where it originated from. According to Jones (2008) “British drinks giant Diageo and Dutch brewer Heineken agreed to strengthen their ties in South Africa and take on dominant domestic brewer SABMiller by building a brewery there by end-2009.” Heineken’s chance to expand in South Africa came in March 2007 when an International Chamber of Commerce court ruled to terminate SABMiller’s license to brew and distribute Heineken’s Amstel beer in South Africa. Amstel dominated South Africa’s premium market, accounting for 9% of the national beer market and <https://assignbuster.com/analysis-and-comparison-of-diageo-and-sab-miller-marketing-essay/>

SABMiller said the license loss would cost it \$80 million in annual profits.

Therefore it can be concluded that though looking at the current position

(Appendix 1) SAB Miller's performance is better than that of Diageo Plc,

however it has threat from Diageo and its other competitors when we look at their upcoming acquisition strategies.

Appendix 1. Share price comparison between Diageo plc, SABMiller plc and FTSE 100

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Source: Yahoo UK & IRELAND FINANCE

In the share price chart the blue line represents SABMiller, green line Diageo and red line FTSE 100 respectively.

The graph above shows share price comparison of SAB Miller plc & Diageo Plc with FTSE 100 for the last 2 years.

Appendix2. Consolidated Balance Sheet for Diageo plc (Source: Yahoo FINANCE)

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Appendix3. Consolidated Balance Sheet for SABMiller plc (Source: Yahoo FINANCE)

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